Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

June 2023 - Quarterly Report

Performance	1 month %	3 Months %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	0.8	2.3	5.4	7.9	-	-	4.9
Fund return (net)[2]	0.8	2.2	5.4	7.9	-	-	4.9

[1] Returns are calculated before fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.
[2] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. **Past performance is not a reliable indicator of future performance. Past performance figures that are less than 12 months are for informational purposes only and are not to be relied upon when considering the likely future performance of the Fund. Data Source: Fidante Partners Limited, 30 June 2023.**

Underlying Fund

The Fund primarily invests in a diversified portfolio of global liquid and illiquid asset classes via its investment in the CION Ares Diversified Credit Fund (**Underlying Fund**). The Fund also invests in cash and foreign exchange hedging instruments. In this report, where we refer to the Fund's investments we generally do so on a 'look-through' basis; that is, we are referring to the underlying assets that the Fund is exposed to through its investment in the Underlying Fund.

Underlying Fund Overview

The Underlying Fund's investment objective is to provide superior risk-adjusted returns across various market cycles by investing in a diversified portfolio of liquid and illiquid asset classes. The Underlying Fund seeks to capitalise on market inefficiencies and relative value opportunities throughout the entire global credit spectrum. The Underlying Fund seeks to achieve its investment objective by employing an opportunistic, dynamic and unconstrained global credit investments strategy based on absolute and relative value considerations and its analysis of credit markets. It seeks risk-adjusted returns over full market cycles by creating and managing a portfolio with balanced exposures to multiple industry sectors and geographic regions, systematically allocating capital across multiple segments of the global fixed-income markets, including U.S. and non-U.S. credit instruments.

Underlying Fund Facts[5]

Portfolio managers	Mitch Goldstein and Greg Margolies
Inception date	12 July 2017
Management fee	1.25% p.a.
Performance fee	15% subject to a hurdle rate of 1.5% per quarter (6% annualised), and subject to a catch-up feature.
Total Issuers	657
Total Managed Assets[3]	US$3.9BN
Sharpe Ratio[7]	0.94
Standard Deviation	3.90%
Yield to Maturity (YTM)	11.53%
Distribution Rate (p.a.)[7]	9.13%
Running Yield	11.05%
Interest rate duration	0.49
Spread Duration	2.28

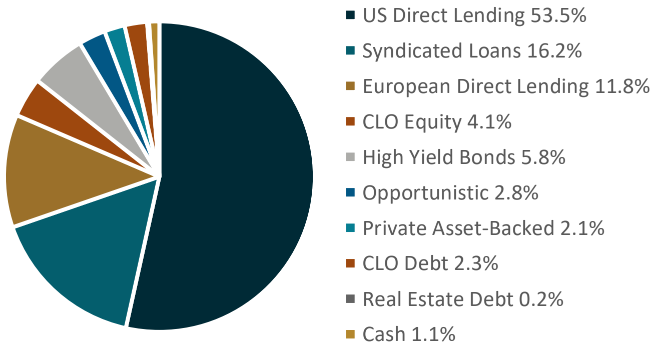
[3]Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

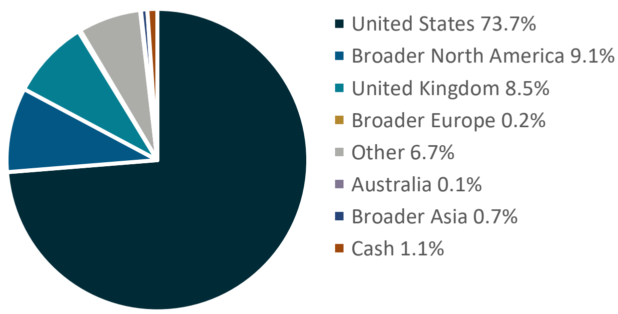
Inception date	17 December 2020
Fund FUM	$463M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.25%/-0.00%
Distribution Frequency	Monthly
Distribution Rate[7]	0.67%

Underlying Fund Allocation[5]

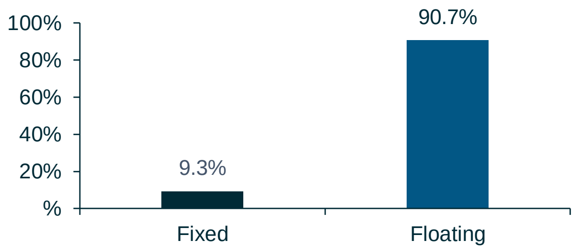
Asset Allocation



Geographic Allocation



Interest Type[6]



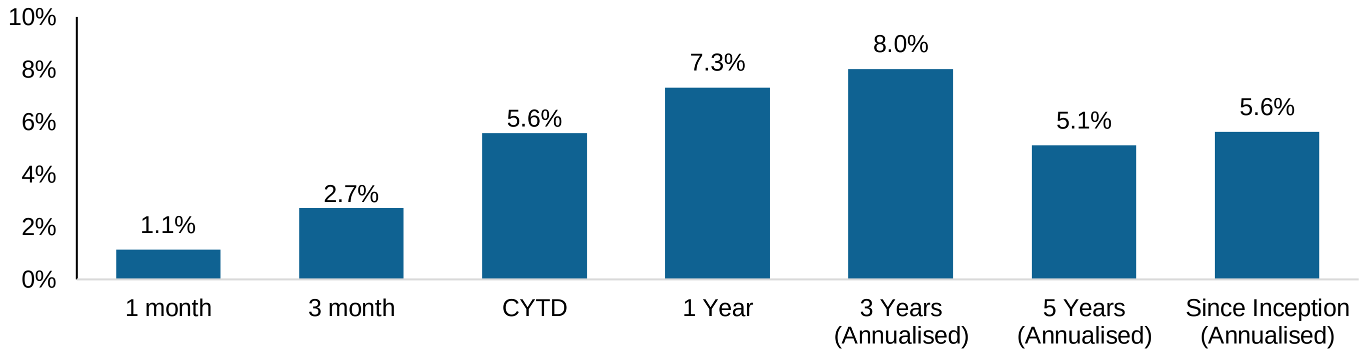
[4] The only fee is a recoverable expense, which is currently 3 bps.
[6] Excludes cash, other net assets and equity instruments.
[7] There can be no guarantee that the disbution rate will accrue at such amount and there is no assurance that distributions will be maintained at the targeted level or at all

Underlying Fund Top 10 Holdings[5]	
Kaseya	1.2%
Mimecast	1.2%
Nielsen	1.2%
DigiCert	1.0%
High Street Insurance Partners	1.0%
TurnPoint Services	1.0%
European Camping Group	1.0%
Platinum Credit	0.9%
Conservice Midco, LLC	0.9%
eCapital Finance Corp.	0.9%

Underlying Fund Industry Allocation[5]	
Software and Services	21.1%
Commercial and Professional Services	10.9%
Financial Services	8.8%
Structured Products	8.1%
Health Care Equipment and Services	8.0%
Capital Goods	6.8%
Consumer Services	5.9%
Insurance	5.8%
Other	23.5%
Cash	1.1%

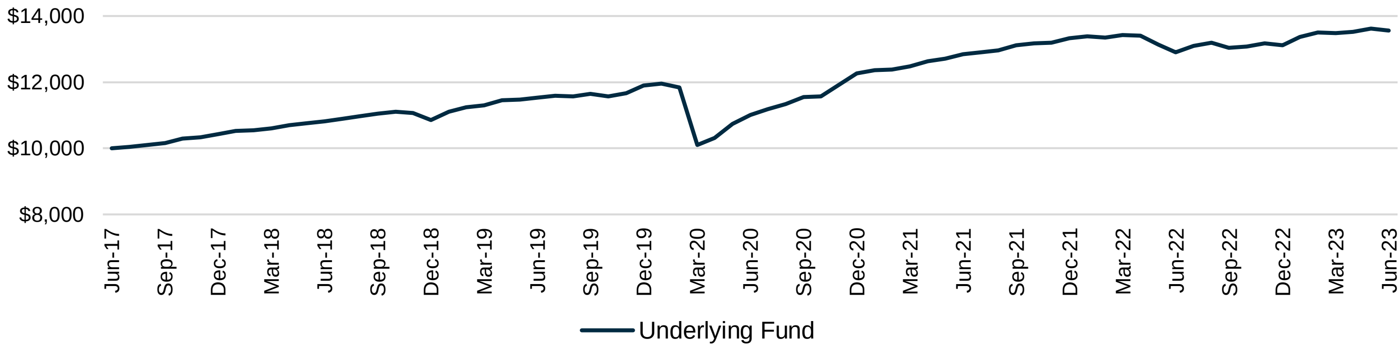
[5] As of 30 June 2023. Holdings and allocations, unless otherwise indicated, are based on the total portfolio and subject to change without notice. Data shown is for informational purposes only and not a recommendation to buy or sell any security.

Underlying Fund Historical Performance[8]



[8]As of 30 June 2023. Returns of the CION Ares Diversified Credit Fund Class I Shares. Returns are in USD and include reinvestment of distributions and reflect fund expenses inclusive of recoupment of previously provided expense support. The expense ratio was 4.87% as of December 31, 2022. Expense ratios are annualised and calculated as a percentage of estimated average net assets. Share values will fluctuate, therefore if repurchased, they may be worth more or less than their original cost. Past performance is not indicative of future results. The performance shown is on a 'look-through' basis to the performance of the Underlying Fund. The performance of the Fund may not exactly replicate the performance of the Underlying Fund.

Underlying Fund Growth of $10,000 since Inception (net of fees)[9]



[9]This graph illustrates the performance of a hypothetical $10,000 investment made in this Fund from the inception date of the product. This is represented as the change in total return at monthly intervals. Total return is a measure of the change in NAV including reinvestment of all distributions and is presented on a net basis reflecting the deduction of fund expenses and applicable fees with expense support provided by CION Ares Management (CAM). The performance quoted represents past performance, is no guarantee of future results and may not provide an adequate basis for evaluating the performance of the Fund over varying market conditions or economic cycles. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance data quoted.

Recommended
Lonsec Research

Market Overview

Risk assets were positive in the second quarter as resilient economic data and corporate fundamentals bolstered investor sentiment and the prospects of a "soft landing" for the global economy. The US Federal Reserve (Fed) paused their tightening regime in June, citing labour market strength and indicators which suggest "economic activity has continued to at a modest pace". Despite the pause, markets continued to price in higher for longer rates, with year-end forecasts moving higher on stronger growth, inflation and labour expectations. Credit spreads grinded tighter throughout the quarter as the macro environment contributed to favourable technicals for risk assets; syndicated loans (proxy: CSLLI) and high yield bonds (proxy: HUC0) returned +3.12% and +1.63%, respectively. In both markets, a number of common themes unfolded; Primary market driven by refinancing activity, lower credit quality credit outperformed and higher, yet below average, default activity. The syndicated loan market benefitted from higher base rates as well, which ended the period north of 5%. Shifting to private credit, companies and private equity sponsors continued to look to corporate direct lending as a financing source in an effort to decrease execution risk and increase flexibility amid tighter lending conditions in the banking sector. Volumes started to rebound relative to earlier this year, albeit with modest spread tightening in the primary market as elevated dry powder contributed to a more competitive marketplace for direct lenders. Tighter lending conditions influenced the alternative credit markets as well with banks stepping away from areas such as fund finance and seeking to offload asset portfolios.

Underlying Fund Commentary

The Underlying Fund maintained an overweight towards floating rate, directly originated assets in defensive sectors throughout the quarter. While the bias towards private credit remained in-tact, the allocation to liquid credit was increased as we took advantage of favorable technicals and attractive all-in yields within the syndicated loan high yield bond markets. The Underlying Fund's exposure to CLO debt securities was increased too, as we acquired high grade tranches trading at attractive yields relative to history. Within private credit, the allocation to asset-backed and corporate direct lending in the U.S. and Europe decreased modestly as repayments outpaced new deployment for a second consecutive quarter. While lower, we continued to actively participate in new transactions in these sectors due to relatively lender friendly conditions and attractive relative value on a risk-adjusted basis. The Underlying Fund's exposure to the real estate sector remained minimal with one investment in the multi-family sector.

Shifting to performance, the Underlying Fund continued to benefit from an approximately 91% allocation to floating rate credit. As previously noted, the Underlying Fund received positive contributions from each credit sector, underscoring our ability to generate attractive returns across the liquidity spectrum. The allocation to U.S. direct lending was the leading contributor, a byproduct of the Underlying Fund's overweight coupled with elevated yields and stable fundamental trends within the incumbent portfolio. The Underlying Fund's liquid credit allocations benefitted from strong market technicals and risk-on sentiment; notably, high yield bonds generated the strongest absolute return during the quarter. The Underlying Fund's Opportunistic allocation benefitted from a realization event within the Automobile sector.

Asset Class *	Contribution
US Direct Lending	Positive
European Direct Lending	Positive
Syndicated Loans	Positive
Alternative Credit: CLO Equity	Positive
Opportunistic	Positive
HY Bonds	Positive
Alternative Credit: Private ABS	Positive
Alternative Credit: CLO Debt	Positive
RE Debt	Positive

*Presented in order of contribution to Fund returns. As of June 30, 2023.

Outlook

The environment for credit investing remains sound as we enter the second half of 2023; companies continue to meet or exceed expectations, liquidity is stable, and the default environment remains ordinary. As a result, the "buy the dip" mentality has prevailed, suggesting credit spreads are biased to grind tighter in the near term. That said, the backdrop is not in a utopian state, and cracks are evident; forward indicators continue to suggest an economic slowdown, and concerns around the go-forward path of the consumer and corporate balance sheets remain. In the near term, we seek to take advantage of favorable technicals in the liquid credit markets, adding to syndicated loans and high yield bonds at favorable levels and in a prudent manner. Further, the Underlying Fund continues to actively invest in asset-backed and corporate direct lending opportunities in the U.S. and Europe, benefitting from incumbency and a large origination network amid a continued slowdown in global M&A volumes. We're pleased with how the portfolio is positioned today, with a core allocation to defensive, directly originated assets, and ample liquidity to take advantage of market dislocations should they occur. The Underlying Fund continues to benefit from rising rates and continues to pass those benefits through to investors in the form of distribution rate increases; effective July 1, the distribution rate was increased to 9.13% on an annualized basis, the fifth increase since 2022. Looking ahead, we continue to focus on the macro environment and potential impact on portfolio companies and lending conditions more broadly. Overall, we believe the Underlying Fund's emphasis on diversification and directly originated assets will continue to add value amid tighter lending conditions in the U.S. and Europe.

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on energy, transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global financial markets and oil prices and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess. Any public health emergency, including any outbreak of COVID-19 or other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on the Fund, the value of its investments and its portfolio companies. The performance and portfolio company information herein is as of the dates herein and not all of the effects, directly or indirectly, resulting from COVID-19 and/or the current market environment may be reflected herein. The full impact of COVID-19 and its ultimate potential effects on portfolio company performance and valuations is particularly uncertain and difficult to predict.

For further information, please contact:

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